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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 43
9 MARCH - 15 MARCH 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

SCAP has attacked the Japanese Government's subsidy policy and issued a directive to the ailing coal-mining industry (p. 2).

The Kim mission to Moscow may presage integration of Northern Korea's economy with the USSR's Northeast Asian complex (p. 3).

Treatment of US officials in Manchuria and North China, while by no means liberal, seems to reflect a Communist hope of eventual restoration of commercial relations (p. 4).

Under the continued stress of internal disorder, Burma's economy is rapidly approaching the level of bare subsistence (p. 7).

Philippine officials are concerned over the possibility of alien agents being among the stateless Shanghai refugees at Samar (p. 7).

The marginal notations used in succeeding sections of this Weekly ("A", "B" or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

JAPAN

Events on the left-wing. The latest USSR move in Japan is an invitation to the National Council of Industrial Organizations (NCIO), the nation's largest labor federation, inviting two Japanese labor leaders to attend the 10th National Convention of Trade Unions of Soviet Russia, scheduled for 19 April in Moscow. The invitation comes shortly after a World Federation of Trade Unions' bid to Japanese labor to join that Soviet-dominated body which SCAP is expected to disapprove. The new move is obviously intended to make propaganda capital out of what will undoubtedly be another SCAP refusal.

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Meanwhile, the Japanese Government's general anti-Communist policy is to be implemented in part by the improvement of the police force. Present plans call for improved mobility, better communications and an increase in armament to more than 123,000 pistols from the present 25,000. No increase in the present strength of 125,000 is anticipated, in part because any enlargement of numbers would require Far Eastern Commission approval.

While various new labor law restrictions are expected to limit Communist activity indirectly, a direct assault on the Japan Communist Party (JCP) will be investigations by the Cabinet's proposed Ur-Japanese Affairs Committee. The present government is expected to pursue its anti-Communist course cautiously, however, so as not to expose itself to SCAP censure on the grounds of being "undemocratic" or to invite foreign criticism.

The JCP, aware of a strengthened security system's menace, has attacked the police reorganization as repressive and fascistic. Party propaganda claims a "war scare" is being fomented to justify a larger police force. The Japanese press, in turn, has recently charged the Communists with attempting to infiltrate the police. Careful screening of police candidates in the past apparently rendered penetration negligible. The JCP now is reportedly attempting to recruit new members by intimidating policemen with a "Red China" scare and predictions of the early downfall of the YOSHIDA Cabinet. Whether the present infiltration attempt will be more successful than those in the past remains in doubt.

Industrial subsidies attacked. SCAP's new hard economic line was indicated on two fronts this week. First, financial advisor Joseph Dodge announced that the Japanese economy had become unduly dependent on Government subsidies and deficit financing, as well as continuing US aid. In a severe attack on the unbalanced Government budget, Dodge declared that such dependence must cease, inflation must be halted and the economy stabilized. Premier Y oshida followed the Dodge statement with an

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JAPAN (Cont.)

announcement that the recently completed budget must be rewritten to include Dodge's recommendations, a move designed to strike terror in the hearts of most Japanese industrialists who must depend on Government subsidies to meet their financial needs. Japanese could take some comfort from the fact that Dodge did not recommend currency devaluation, as he had done in Germany in 1946.

SCAP aimed a further blow at the crucial but sickly coal-mining industry, which has an estimated 20 million yen deficit to face in this fiscal year. SCAP, in a directive, ordered the Government to correct current malpractices - some mines are behind in meeting their payrolls - and improve operations. Both ends are to be accomplished without increasing the price of coal and without further Government subsidies, previously scheduled at 12 million yen this year.

New machinery needed. Pointing out that Japan's economic future is dependent upon development of exports, SCAP has blamed industry's failure to attain maximum efficiency and output on the considerable amount of obsolete equipment presently in use and reports that selected items of machinery and equipment, as well as replacement parts, will have to be imported from the US. Although Japanese industry has a considerable capacity for making machinery, SCAP considers that the lack of access to world technological developments for the past eight years and the lack of repair and replacement parts for existing machines have badly handicapped production in the textile, plastic, communications equipment, metal and electric power industries, as well as in scientific and technical research and development.

"C"

KOREA

Mission to Moscow. Puppet premier of the Korean Democratic Peoples' Republic, Kim Il Sung, and the accompanying members of his cabinet have received VIP treatment in Moscow, including an audience with Stalin. Designed to cement Soviet-Korea ties more securely, the invitational journey - in two USSR transport planes accompanied by an honor guard of four fighters - was psychologically well-timed on the heels of the UN rejection of a North Korea bid for membership. This display of the high regard in which the USSR allegedly holds its puppet state probably presages an intensive effort to integrate the economy of northern Korea with the general Soviet plan for Northeast Asia.

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While Korea is more important to the USSR as a military base than in any other capacity, it has definite economic possibilities when linked with Manchuria and the Soviet Maritime Province. While its industrial

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KOREA (Cont.)

capabilities are still well below Western standards, Soviet training of technicians is continuous, Soviet advisors are directing rehabilitation and development, and constant Soviet propaganda urges increased efforts on the part of Korean workers north of 38.

Anti-guerrilla campaign intensified. The Republic of Korea has intensified its efforts to eliminate Communist-organized guerrilla bands that have terrorized Cholla-namdo and Cheju-do since the abortive Yosu revolt in October, 1948. To accomplish this, the Korean Army has activated a special combat command under Brig. Gen. Chung Il Kwon, and Rhee has sent Home Minister Shin Sung Mo to Cheju-do to institute a more effective suppression campaign. Possibly resulting from Shin's presence, Korean Army units on Cheju-do recently have entered on more active operations including night patrols and forays into the mountainous interior of the island.

"B"

Terrain difficulties will prevent eradication of all Cholla-namdo and Cheju-do guerrilla units. More important, however, suppression of guerrillas in the southern part of the Korean Republic is less dependent on Security Force efficiency than on the ability of the Government to implement economic and police administration reforms to reduce peasant discontent and bring the local population to the active support of the Government. The likelihood of any such reforms in the near future is slight.

CHINA

HO Ying-chin appointed Premier. General HO Ying-chin's appointment as Premier (and concurrently Defense Minister) represents a further strengthening of Acting President LI's peace efforts. Despite HO's being on the war criminal list and his past anti-Communist record, his appointment should not prejudice peace negotiations; the Communists may even plan to capitalize on HO's influence over the military, particularly over certain Whampoa Clique generals. In accepting the Premiership, HO has apparently decided to cast his lot with the peace front, reportedly on the condition that he be granted complete authority to run the Government in accordance with the Constitutional provision of a responsible cabinet and that he be authorized to make extensive military reforms.

"B"

Position of US officials in Communist-occupied cities. The Communists have adopted a restrictive interim policy toward American representatives in the major occupied cities of Mukden, Tientsin and Peiping. The US Consulate in Mukden was deprived of its radio transmitter, and

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has not been heard from since 18 November. According to the Mukden USIS offices has ceased to function, the Consulate staff has been interned and the Consulate's electricity has been cut off.

The Tientsin Consulate's radio transmitter was closed down on 22 January. Beginning on 5 March, however, the US Consul was granted permission to use public telegraphic facilities for plain messages. ECA supplies in Tientsin were confiscated in early February. The USIS newsfile was suspended owing to Communist pressure, but the USIS library apparently remains open. The Tientsin Consulate staff has not been interned nor has the Consulate been under guard since the first days of the occupation. However, Consular officials have not been received by any but very junior Communist officials.

In Peiping, seven weeks after the Communist occupation on 22 January, the US Consul is still permitted to operate his radio transmitter. Other restrictions are in force, however. Communist authorities in Peiping do not recognize the official functions of any foreign consuls in Peiping including the Soviet Consul General who has consequently closed his office. Consuls are required to deal with Communist officials only in individual capacities, and are unable to contact any responsible officials. The US Consulate is guarded and rigid restrictions on entry and exit are in force, ostensibly to prevent incidents which could "embarrass the Peiping Peoples' Government." Restrictions in Peiping were further tightened on 27 February, when the Military Control Commission restricted foreign correspondents' activities and ordered the USIS office to suspend its newsfile. In mid-February, the Communists confiscated over 100 tons of ECA flour. When the ECA representative protested this action to authorities in Peiping, it was stated that the flour was the property of the Nanking Government and that, by virtue of Peiping's surrender, it has become the property of the Communist Government.

The aloof and uncooperative Communist policy used in dealing with all foreigners and diplomatic representatives---particularly Americans---probably will continue until their respective countries extend recognition to a Communist Government. Another reason for refusing to deal with foreign representatives in an official capacity, (which in international law would not constitute recognition of the governments concerned) may be that the Communists have been so preoccupied with the problems of occupation and reorganization so suddenly thrust upon them, that their policy toward foreigners and foreign interests has not yet crystallized. In view of the grievances which the Communists bear against the US, especially as emphasized by their propaganda in the past three years, it is significant that US representatives in Communist areas have not been dealt with more severely. That US Consuls in Communist areas have in general received the same treatment as other foreign consuls seems to indicate that the Communists are being careful to preserve the possibility of future diplomatic and commercial relations between Communist China and the US.

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Communist preparations for a Political Consultative Conference.
Regardless of the outcome of any peace negotiations with the Li Tsung-jen Government, the Chinese Communists will probably convene a Political Consultative Conference (PCC) within the next few months. Should formal peace negotiations actually get under way and progress to the satisfaction of the Communists (i.e. should a sufficiently large proportion of Nationalist figures agree to Communist terms tantamount to surrender,) the PCC may be called jointly by the Communists and Li Tsung-jen. Those Nationalists who do not agree to Communist terms would be excluded from participation in the PCC. Should the negotiations break down completely, the PCC will be convoked unilaterally by the Communists.

Among MAO Tse-tung's eight demands was one calling for convocation of a PCC, with the mission of transferring all status and power from the Kuomintang to a "democratic coalition" government from which "reactionary elements" were to be excluded. The Communists apparently do not now contemplate holding a National Assembly. The Communist New Year's broadcast made clear that the Kuomintang; as a party will not be included in the coalition government to be proclaimed by the PCC. Instead, the coalition government "will be participated in by proper representatives of all democratic parties and groups and people's organizations."

Recent Communist broadcasts have been marked by continuous reports on the creation and growth of various organizations of women's, students' and youth groups. Regional and national conferences of these organizations are announced almost daily. Other conferences of trade unions and of railway workers' labor federations have also been mentioned. It is likely that these organizations are now being rapidly set up by the Communists for the purpose of providing delegates to the prospective PCC.

"C"

Inland Trade assisting Communist expansion in Yangtze Valley.
According to reports, areas along the Yangtze River are arranging inland barter with the Communists. This inland trade with its accompanying prosperity will probably result in: (1) a considerable decrease of opposition to the Communists in the Nationalist contact areas and: (2) the further separation of such localities from the influence of the National government. Once commerce is established, local pressure against resumption of hostilities might become great enough to hamper resistance to the Communists seriously, and might even promote active cooperation with the Communists if continued economic activity can be assured by such cooperation.

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Economic troubles increase. Burma's economy is rapidly approaching the state of bare subsistence as a result of widespread civil warfare.
 Although the 1948-49 paddy crop, upon which the country's economy is dependent, was good, insurgent activity has prevented much of it from reaching markets. Consequently, rice exports this year will be far below normal. Furthermore, British teak companies are discontinuing forest operations after 1 June, Rangoon sawmills are closing in April, and mining has been further curtailed. The Government's cash balances have been virtually depleted while its budgetary deficit continues to grow rapidly because of increased non productive expenditures, decreased revenues, and dwindling royalties on exports. These deteriorating economic conditions have stimulated inflation in Burma, especially in Rangoon, and is reflected in the increasing depreciation of the Burmese rupee. There are no indications that these trends will be halted or reversed and every reason to believe that they will accelerate.

Since a loan was not offered by the Commonwealth Conference in New Delhi, the Burmese Government may have no alternative but to commence printing unsecured paper money. However, such an undertaking will be difficult, or impossible, unless the Bank of England and British Treasury representatives on the Burma Currency Board are replaced and the Board transferred from London to Rangoon. Even if this were accomplished, it is doubtful that the Burmese would accept unsecured currency in view of their recent experience with Japanese occupation money. In order to forestall drastic inflation which might well end in economic collapse, the Burmese Government must either reassert firm control over a large part of Burma or obtain foreign financial assistance. There appears little likelihood that either of these contingencies will occur in the near future.

PHILIPPINES

Government concerned over IRO security problem. Philippine officials "C" fear that potentially subversive individuals among stateless Shanghai refugees on Samar Island will attempt to remain in the Philippines beyond the four months period of residence granted to them. As a result of alleged inadequate screening at Shan-ti, Soviet agents are reported to be among the refugees, mostly White Russians, who were brought to the Samar camp under the auspices of the UN International Refugee Organization (IRO). Reportedly, contacts already have been made between suspect refugees and pro-USSR elements in the Philippines. In an effort to cope with this security problem, the IRO camp director is now cooperating with Philippine intelligence organizations in an attempt to screen the refugees further.

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